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WEEK OF 13 OCTOBER - 19 OCTOBER 1948

SECTION I. SUMMARY OF FAP EAST TRENDS AND DEVELOPMENTS

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Prime Minister YOSHIDA's new single party conservative cabinet will probably be only an interim regime (page 4).

Korean President Rhee Syngman and SCAP will be faced with numerous delicate problems in their forthcoming discussions aimed at defining the status of the Korean minority in Japan (page 4).

The Communists' autumn offensive continues in their favor throughout most of China's civil war areas (page 5). Highlight of the week was the Communist capture of the Government Manchurian anchor, Chihhsien (page 5). Following the fall of Chihhsien political anxiety in North China has increased in intensity (page 6) and Communist propaganda is skillfully exploiting this condition (page 7). Continued military reverses may give rise to an organized movement to oust CHIANG Kai-shek (page 6).

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The Philippine Government is showing unusual anxiety over the international situation and its own internal problems (page 11).

The Australian Labor Government has been successful in its first legal action against a member of the Communist Party (page 12).

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SECTION II. DEVELOPMENTS IN SPECIFIED AREAS

GENERAL

South Pacific Commission to meet on 25 October.

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The South Pacific Commission will open its second meeting on 25 October at Sydney. The Commission, organized in February 1947 at a South Seas Conference in Canberra, is composed of representatives from Australia, New Zealand, United Kingdom, United States, France and the Netherlands. It has for its objective the promotion of economic and social welfare among the non-self-governing peoples of the South Pacific. A work program, decided upon at the initial meeting of the Commission in May 1948, gave priority to studies of the following subjects: sea and air transport, shortages of consumer goods, mechanization of the copra industry, fisheries, maternal and infant welfare, and improved food production and nutrition. Organizational matters, however, have been to the fore during the interim between meetings.

At the forthcoming meeting it is expected that the appointment of key personnel will be completed and that a permanent seat for the Commission will be selected. The member nations have agreed upon the appointment of W. D. Forsyth and H. E. Maude as Secretary General and Deputy Secretary General, respectively. Forsyth has been the Australian member of the UN Trusteeship Council and Maude UK Administrator of the Gilbert and Ellice Islands Colony. The Deputy Chairmanship of the Research Council has been left open pending choice of a permanent headquarters. A committee which visited Suva and Noumea during September favored Noumea by a four-to-two vote but the final decision will be reached at the forthcoming meeting. Both cities lack adequate housing and other facilities and there has been some sentiment in favor of maintaining the Commission's headquarters at Sydney for the time being. It is expected, however, that Noumea will be chosen and that the Netherlands' nominee will be appointed Deputy Chairman of the Research Council. If Suva should be chosen, the French nominee would probably be given the research position.

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JAPAN

Single party conservative cabinet only interim regime. The new Japanese cabinet formed by second-time Premier YOSHIDA Shigeru is the first single-party government in Japan since the surrender. Despite the contrast which its conservative unity presents to the instable "middle of the road" ASHIDA coalition which it succeeds, the Yoshida government will probably be only an interim regime. Made up of members or associates of the Democratic-Liberal Party, the new cabinet faces a difficult task in carrying out any program beyond the passage of legislation requested by SCAP. YOSHIDA's party has a plurality in the lower House but members of the previous government parties hold a majority of the seats. Although conservative elements within the opposition parties can be expected to support YOSHIDA in passing a revised National Public Service Law acceptable to SCAP, the opposition will be able to force a vote of non-confidence on any other issue. In this situation YOSHIDA will probably dissolve the Diet and call national elections. The Democratic-Liberals whose popular support has increased markedly during the 18 months they have been out of office stand to profit by early elections. On the other hand the Democrats and the Socialists stand to lose seats because of (1) the failure of their coalition government to solve Japan's pressing economic difficulties; (2) their involvement in the political scandals which led to that government's fall. In the ensuing months the opposition parties can be counted on to stress the political isolation of Yoshida as an extreme conservative and to exploit any other opportunity to redress the balance of public support.

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KOREA

Rhee to discuss Korean minority problem with MacArthur. President Rhee Syngman's forthcoming discussions with General MacArthur in Tokyo concerning the status of Koreans in Japan will probably develop along the following lines: (1) to secure SCAP's favor, Rhee will be expected to agree to a firm Japanese and Occupation attitude toward the Korean minority; (2) to please public opinion at home and to secure the backing of the 600,000 Koreans in Japan, Rhee must demand special status for this group which would represent a serious police problem. The Koreans have felt that their position as liberated nationals should free them from the control of the Japanese government and should entitle them to special privileges. SCAP has found it expedient, however, to treat them as Japanese because of their large numbers and because so many Koreans are engaged in black-market operations, smuggling and other illegal activities. As a result the Korean minority has been highly volatile and susceptible to Communist agitation and to the blandishments of the Soviet puppet North Korean regime. Rhee has hinted that he will propose repatriation as a solution to the problem. This will remain a highly unrealistic approach until the Korean economy is able to absorb these people and until they are permitted to transfer their property from Japan to Korea.

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CHINA

While the Communist autumn offensive continued through most of the civil war areas, the high point of which was the Communist capture of strategic Chihhsien, Nationalist forces scored local successes in Manchuria and in Shensi. Manchurian Nationalists, in a rare offensive mood, pushed northwest from the Mukden island and, without encountering any significant opposition, occupied Changwu and several points near Hsinmin. These forces have now reached a point where they will be engaged by large Communist forces if they advance any farther. The Nationalist lines south of Mukden extend only as far as Anshan and the reported capture of Yingkou is false. In North China Communist troops are presently active along the Peiping-Suiyuan Railway both east and west of Kalgan, near Nankou and Yangkao. They continued their assault on Taiyuan, capital of Shansi, where, according to late press reports, they have breached the city's outer walls. In Shensi Nationalist reinforcements in the Tali sector are credited with halting the southward advance of PENG Teh-huai. All regular Nationalist forces have been withdrawn from Chenghsien and Kaifeng; the evacuation of Chefoo is underway. PAI Chung-hsi's drive westward from Suiping, halfway between Chenghsien and Hankow, was halted when the forces of LIU Po-cheng, target of the drive, moved out of PAI's immediate reach.

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Fall of Chihhsien is possible forerunner to loss of Manchuria. Following a short but effective siege the Communist forces of LIN Piao occupied Government-held Chihhsien on 14 Oct. With the fall of this strategic Manchurian anchor the Communists have virtual control of the Manchurian corridor, consequently are in a position to block effectively any Nationalist attempt to move troops either north or south through the corridor. As a result of the rapid capture of Chihhsien the Communists probably obtained most of the vast Nationalist supply stores previously destined for sorely pressed Mukden forces. Having occupied Chihhsien the Communists now hold an excellent base for future military operations south against the Peiping-Tientsin area. Two major routes of ingress are: 1) south along the railroad via Shanhaikwan, and 2) west via Chengteh-Kupeihow. As a consequence of the fall of Chihhsien and the resulting curtailment of Mukden air supply, the Government's position in the Mukden island will very likely soon become untenable. An attempt will probably be made to get the remaining first class (US-equipped) troops out of Manchuria either by air-lift or a land drive. The successful accomplishment of an air evacuation is doubtful in view of the inadequacy of gasoline, field facilities, and aircraft. Any attempt at a major land movement of troops south out of the Mukden area will probably lead to severe losses en route.

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TU Yu-ming returns to Manchuria. CHIANG Kai-shek has ordered the reputedly incompetent Nationalist General TU Yu-ming, former Government Commander in the Northeast, to Mukden as "tactical advisor" to the present Northeast Commander, WEI Li-huang. The Generalissimo is reported to be highly dissatisfied with WEI's lack of aggressive tactics in Manchuria and has ordered TU, whom he deems "a man of action," to remedy the situation. Most US military observers are of the opinion that TU is incapable of command and is largely responsible for the present status in Manchuria. Although TU is a personal friend and "confidant" of the Generalissimo, his return to a position of authority in the Northeast might easily result in the coup de grace to the Government's Manchurian effort.

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Popular realization of the critical military situation has strengthened a widespread conviction in Nationalist official and unofficial circles that retirement of CHIANG Kai-shek and his close associates is a necessary prerequisite to more effective government and to the achievement of some kind of internal peace. Although CHIANG apparently intends to continue present policies without substantial change, further serious reverses may influence him to accept a face-saving arrangement involving termination of his control. Continued failure to do so might lead to a less orderly political transition as peace sentiment mounts with successive Nationalist defeats. However, at present no leader or movement in Nationalist China appears prepared to attempt to displace CHIANG.

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From its headquarters in Hong Kong, the Kuomintang Revolutionary Committee of Marshal LI Chi-shen continues to propagandize its program of peace and coalition government with the Communists. However, evidence of organized and effective support for LI is lacking. He has voiced belief in the early downfall of CHIANG's government and has sent representatives to North China to plan with the Communists a new Political Consultative Conference. This conference is supposed to be a multi-party body which would take initial steps toward establishment of a new coalition government for China. Decisions of any such conference would reflect predominantly Communist views, as further military successes make the Communists less disposed toward political compromise. Should CHIANG attempt indefinitely to control a deteriorating National Government, some discontented Nationalists will gravitate toward the Communist-sponsored regime. Moreover, various military leaders in North and South China will be impelled to develop plans for provincial and regional regimes and, where necessary, for the maintenance of local power to bargain with the Communists.

Accommodation to the anticipated Communist occupation of North China areas is a major concern of many groups of residents, following

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the Communist capture of Chinhsien and other points. Popular resentment against the National Government and a feeling of despair and hopelessness are factors influencing these groups. Their attitude may be confirmed by early curtailment of foreign activities and by public announcements regarding the evacuation of US citizens from Peiping, Tientsin, and other threatened areas. Recent Communist propaganda, which has offered assurances of protection and generous treatment for city residents not aiding resistance to Communists, apparently is gaining for the latter political tolerance and or support. However, some leaders and groups in threatened regions probably will find other ways to safety or possibly attempt to continue the struggle with Nationalist forces in Suiyuan and the Northwest provinces.

The recent suspension of two Shanghai papers indicates CHIANG Kai-shek continues to allow himself to be utilized by powerful and privileged groups even at the expense of his own son, CHIANG Ching-kuo. The closure of the Chen Yien Pao and the Ta Chung Yeh Pao reportedly by order of the Generalissimo, on the instigation of certain influential groups, tends to undermine the younger CHIANG'S position as Deputy Economic Supervisor for the Shanghai area by depriving him of his principal mouthpieces. Both papers had given wide publicity to the alleged violation by David KUNG, General Manager of the Yangtze Development Corporation, of the new economic decrees against hoarding, and probably had been influential in the Control Yuan's decision to investigate the activities of the corporation. The papers' attack on KUNG, who is the son of H.H. KUNG and nephew of Madame CHIANG Kai-shek, reflects a strong popular resentment against the virtual economic monopoly held by the Four Families through the Yangtze Development Corporation. CHIANG Ching-kuo, son of the Generalissimo's first wife, has been countered in his efforts to prosecute young KUNG by Madame CHIANG's attempts to intercede for her nephew.

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Chinese Communist propaganda has become a dangerous weapon. While CHIANG Kai-shek is wrong in blaming the present plight of the National Government on Communist propaganda, it is true that, since the Government has arrived at its present critical state, propaganda is one of the Chinese Communists' most effective weapons. The Communists have exploited the Nationalist position by publicizing the "realistic" picture in such places as Changchun, with the result that many Nationalist troops in that area have reportedly deserted. When taking over Tsinan they promised leniency and have followed that statement by what appears to be an orderly and efficient regime. Such a policy will probably encourage the populace of other cities to offer weak resistance in the face of the Communist offensive. The Chinese Communists have been extremely clever in formulating a propa-

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ganda policy which exploits to the utmost the possibilities offered by the ineptitude of the National Government and supports promises by achievement.

Soviet recognition of Communist North China Government unlikely. Recognition by the USSR of the recently-formed North China People's Government would be inconsistent with observation of the Sino-Soviet Treaty of Friendship and Alliance, and would compromise the Soviet propaganda position as champion of "national integrity." In addition, the USSR is believed to aim at the domination not merely of North China but of all China; hence recognition of a Communist regional government, rather than of a coalition government for all China, would be premature and pointless. Finally, the possibility that the USSR will formally offer to mediate in the civil war (whether to assist the Communists to more rapid control of China, or to prevent the Communists from attaining a position sufficiently secure to contest future Soviet decisions on policy) appears to militate strongly against such recognition, for it is highly probable that the USSR, during the period of mediation, would feel impelled to preserve a pretense of impartiality.

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Economic Reform Program weakens under inflationary pressures. There are indications that the Chinese economy will soon return to printing press currency and virtually open black-market operations in foreign exchange and commodities. The gold yuan note issue is estimated to have reached GY \$1.25 billion on 15 October, an increase of 30% over the previous two weeks, and represents five times more money in circulation than on 19 August (date of the New Economic Reform Program). Little of this money is going back to the Government in taxes or into productive enterprises, but is building up inflationary pressures instead, which if unchecked, will result in an economic explosion. This is evidenced by: 1) Shanghai's retail buying spree which has spread to other cities, 2) increasing scarcity of daily necessities except for those purchased in "under-the-counter" dealings at prices far above fixed levels, 3) short term interest rates so low as to be negligible by Chinese standards (4% per month), and 4) re-establishment of active black markets in gold bullion and US currency.

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There is now a sizeable volume of black-market US currency transactions in Shanghai, with rates rising to between GY \$6 and GY \$7 to US \$1 compared with the official quotation of 4 to 1. In Peiping and Tientsin, where police surveillance has been only nominal, the exchange rate has reached GY \$16 to US \$1, a 100% increase over the previous week; commodity prices rose still faster. Food shortages, high prices and labor troubles have created a tense atmosphere in Tientsin.

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With the concurrent adverse military developments it seems improbable that the Government can continue to halt the inflationary tide; at the same time it appears equally improbable that it can abandon the reforms on which so much was staked. What is more likely is that there will be a slackening of the pretence of enforcement and a yielding to economic forces which at the moment are gaining the upper hand.

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INDOCHINA

Bao Dai insists on French concessions. Former Annamite emperor Bao Dai "B" is insisting on a clear-cut statement of French policy on Indochina before he will return to head the Vietnam state. The ex-emperor has stated in Paris that he is eager to complete negotiations with the French Government and stressed that the postponement of a definitive treaty was preventing a non-Communist solution in Indochina. It is the former emperor's opinion that satisfactory agreements can be concluded prior to any French Assembly action on the status of Cochinchina. Bao Dai's insistence upon a treaty which will grant to Vietnam real independence within the French Union, including internal autonomy and control of both the army and diplomatic representation, is based upon the realization that he does not possess any widespread support in Indochina and that he must have substantial French concessions in order to attract the non-Communist nationalists away from Ho Chi Minh. Meanwhile, growing evidence in Indochina indicates an increasing lack of confidence in the French for failure to implement the promises implied in the 5 June Franco-Vietnamese Agreement. This situation deters Vietnamese nationalists from participating in the fragile Provisional Central Government headed by General Xuan and may lead to the disintegration of the provisional regime before Bao Dai can secure the necessary concessions from the French Government. 25X1

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PHILIPPINES

Government lays plans for emergency. Displaying unusual anxiety over "B" the international situation, President Quirino has announced that plans are being made to prepare the Philippines for any emergency. Steps announced by Quirino to place the Philippines on an alert status include: (1) creation of a civilian emergency organization to supervise activities of the civilian population during war; (2) increased conservation and food production; (3) mobilization of relief agencies for coordinated action; and (4) preparations to place the Philippine Armed Forces on a wartime footing within the shortest possible time following a declaration of war. Five Philippine Senators currently visiting the United States have been recalled, and there is a possibility that Quirino may recall key Philippine diplomatic representatives to report on the world situation. According to a governmental press release, Carlos P. Romulo, Philippine Ambassador to the United Nations, has reported to President Quirino that the international situation is grave.

Internally the concern expressed by the Philippine Government over the international situation and awareness of its failure to liquidate the Hukbalahap may lead to a request for US assistance. This possibility is strengthened by increased Huk activity in the environs of Manila and the infiltration of Huk refugees into the city itself. Although such infiltrations are probably caused by Constabulary pressure in central Luzon, assassination plots against high Government officials remain a possibility.

While there is considerable popular support for the anti-Huk drive and the Huks' increasing raids reveal food and supply shortages, other developments demonstrate the Government's inability to cope with the Huk situation. Constabulary operations have not increased during the week and the Government is showing definite concern with the slow progress. Relief problems for an estimated 44,000 displaced families are acute. The President's Action Committee for Social Amelioration is hampered in its relief activities by lack of funds, inadequate protection from dissident action, and transportation difficulties.

Philippine Department of Justice rules Communist Party illegal. "B" The Philippine Department of Justice on 16 October ruled that the Communist Party of the Philippines is an illegal organization having as its avowed purpose the incitement of class struggle and the overthrow of the present government. The Department of Justice had been requested three weeks ago by the Malacanang Office of Public Relations to clarify the legal status of the Communist Party since there was some doubt whether a Supreme Court decision of 1932 banning the Party was still applicable. It is possible that the Philippine Congress, which has recently created a Committee on Un-Filipino Activities will, during its next session, strengthen legislation directed against subversive activities.

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AUSTRALIA

Australian Court ruling may affect Labor Government's Communist policy. "B"
The Australian Labor Government has been successful in its first legal action against a member of the Communist Party. The Government recently filed a charge of sedition against George Burns, a Queensland Communist, for declaring that in the event of a war with the USSR he would fight on the side of the Soviets. The Court upheld the Government by sentencing Mr. Burns to six months in jail. The conviction was based upon the Crimes Act which carries a maximum three year penalty for the writing, publishing or printing of a seditious statement.

The case is significant in that it represents the first positive action by the Labor Government against Communism per se. Although an appeal to the High Court is pending on behalf of the defendant, the initial success of the government action may well forecast a stiffening governmental attitude toward Communist elements. The decision is expected to be favorably received in Australia where the average citizen is basically anti-communist. A strong public reaction together with increasing international pressure may alter the Labor Government's previous policy of indecision and vacillation which although acceptable as politically expedient is becoming increasingly untenable.

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